

Appendix 1

***Cravath, Swaine & Moore, LLP
Unsecured Creditors of AHERF v. PwC
Civil Action No. 00-684***

Market Environment and AHERF-E Impact

November 2004

BDC Advisors, LLC

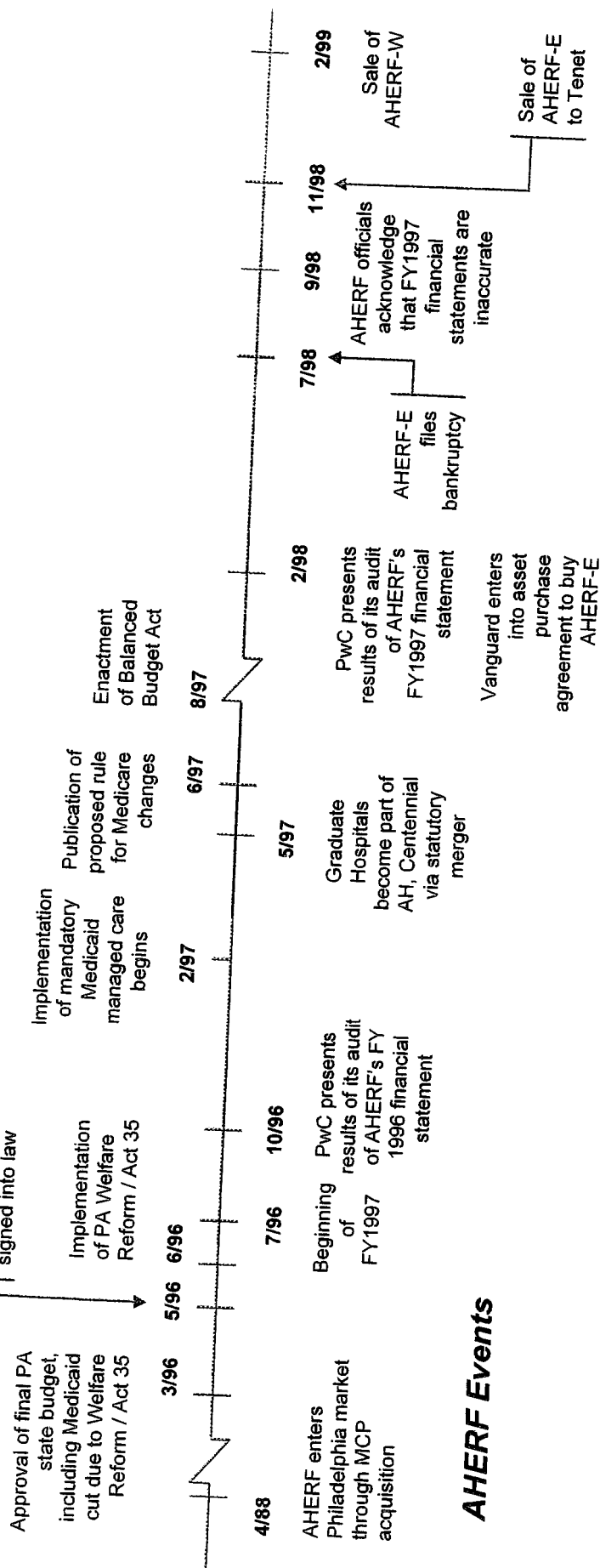
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Key Definitions . . . Timeline

Selected Events Timeline

External Events

- Growth in HMO enrollment
- Increasing malpractice premium / CAT Fund



Source: BDC Advisors, LLC analysis

BDC Advisors, LLC

AHERF-East Entities – FY1997 to FY1998

AHERF-East Entities	FY1997	FY1998
Allegheny University Medical Practices ¹	✓	✓
Delaware Valley Obligated Group ("DVOG")		
Allegheny University of the Health Sciences	✓	✓
Allegheny University Hospital MCP	✓	✓
Allegheny University Hospital Hahnemann	✓	✓
Allegheny University Hospital Bucks County	✓	✓
Allegheny University Hospital Elkins Park	✓	✓
Allegheny University Hospital St. Christopher	✓	✓
Allegheny Hospitals ("AH"), Centennial ²		
Centennial Graduate	✓	✓
Centennial City Avenue	✓	✓
Centennial Parkview	✓	✓
Centennial Mt. Sinai	✓	Closed October, 1997

Note:

- (1) Check mark indicates AHERF-owned entity during a specific fiscal year
- (2) Doing business as Allegheny Integrated Health Group in FY1997

Source: AHERF

BDC Advisors, LLC

Market Environment

In the mid-1990s, competition among hospitals intensified as price among selected payors and volume declined.

- Hospital reimbursement failed to keep pace with rising costs due in part to a market structure dominated by two health plans and increasing HMO enrollment.
- To balance the power among hospitals against two major health plans and respond to managed care, hospitals actively consolidated ownership but did not consolidate bed supply sufficiently to increase occupancy.
- Medicare and Medicaid program changes and payment reductions made it more difficult for hospitals to cover expenses.
 - ➔ Balanced Budget Act (BBA) of 1997 reduced Medicare payments beginning in FY1998.
 - ➔ The 1996 PA Welfare Reform Act placed restrictions on eligibility, reducing FY1997 Medicaid volume.
- As hospital payments continued to decline, hospital financial performance deteriorated among hospitals in Philadelphia.